

IFBCA
A TOOL OF MODERN AGRICULTURE

By
Charles H. Ingraham
Extension Economist
Business Management

*Presented by Dr. Charles H. Ingraham, Extension Economist, Business Management, Ohio State University, Columbus, Ohio, at Fall Manager's Meeting, Indiana Farm Bureau Cooperative Association, Inc., Indianapolis, Indiana, November 19, 1975.

We are living in a time that may prove to be the most difficult and challenging for cooperatives and possibly the most rewarding of any period in history. We are living in a time of changing facts. Many of the facts you and I used yesterday as a basis for our words and actions are not facts today. For example, we in agriculture have associated bigness with bad--farmers were second class citizens with a low standard of living, farmers were poorly educated, clabber milk was fed to hogs, new technology was good if it meant more production and better quality food. Farmers have put it all together; they have attained their goal of a standard of living equal to others in our economy. We sell yogurt to our city cousins. Farmers have lost DDT and some of our other technologies to unfounded claims that they failed to challenge. Cheap fuel that we used to replace muscles with is gone. Co-ops have become inflation fighters rather than depression fighters.

I have taken my text from an unimpeachable source, President Abraham Lincoln. You may recall that in his inaugural speech he answered critics of some of the changes he proposed with an observation that went about like this:

"The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty and we must rise to the occasion. As the case is new, so we must think and act anew."

Someone also reminded me that Lincoln also said, "The world will little note nor long remember what we say here."

Cooperatives are operating in a "new ball game." There is no co-op manager of the past or present that has ever managed in an

economic, social or political climate such as cooperatives are operating in today. In view of this new challenge, a manager, regardless of the type of business he manages, must put management--what it is and what it is all about--in the proper perspective. There are two areas of knowledge a manager must master: (1) The nature of the business he is managing; and (2) The principles and techniques of management. Don't misunderstand me when I say the nature of the business he is managing. I did not say technology of the business; I said the nature of the business. As a cooperative manager, you need to know how a co-op functions in our competitive economy.

Technical knowledge of a business is no longer sufficient preparation for the job of management. The manager of an agribusiness firm in today's dynamic competitive economy must be trained in the processes of business management distinct and apart from the unique technical knowledge of the industry. He needs to understand his firm in your case the cooperative form of business and the immediate economic environment in which it operates.

There is no question about the success of those managers up to this time whose main interest was in a specialized area such as production, grain, feed, sales or finance. Those in the past who have done well without specific, organized or conscientious management training have done so because few others with whom they competed were any different and social and economic conditions and the number and scope of

regulations were much different than today. In fact, for the most part they were nonexistent.

Right from the start I want to tell you that I am on your side. Woody Hayes in his book, You Win With People, makes the point that you really don't get the best from people until you "agress" them. I'm going to attempt to "agress" you. I do hope that you realize I'm really on your side. I know it would be best for me to stand up here and say the nice things you would like to hear, but I believe we, in co-ops, have all done too much of that.

Cooperative directors, cooperative management, you and I have too often considered criticism of the cooperative as criticism of our performance. Thus, we have become defensive. We can justify our defensive reactions by citing examples of charges and press releases by anti-cooperative groups that have been most unfair and unfounded. Yet, I feel we must take a look at ourselves and our cooperatives and see how we can improve to better serve farmers.

When I was asked to participate in this meeting, I was told that you were co-op managers and co-op employees. What is a co-op?

We see things, form opinions and establish viewpoints based upon our experiences. Since we here today work in similar situations, we should see co-ops quite similarly. If we were to ask the question, what is a cooperative, to the other managers of cooperatives back in your county, how would they answer this question? I have found that those

who have experience as manager of a milk cooperative that bargains for price have an answer different than the PCA manager whose answer is different than that given by the REC manager whose answer is often different than yours.

How do your employees answer the question what is a cooperative? I believe one of our problems is that we do not have one set of theory of cooperatives that is acceptable to all. What is a true cooperative? I for one don't know.

We must each establish your own viewpoints about cooperatives. Let me share with you how I view farmer cooperatives as a tool of modern agriculture.

To me agricultural cooperatives are one of the many tools successful farmers have and are using to assist them in efficiently producing and marketing food and fiber. A tool that aids in providing consumers with quality food and fiber economically. To me the agricultural cooperatives are comparable to the farm tractor, a tool of modern agriculture--each required skilled operators, sufficient energy to power it, good maintenance to be in top working condition, and they must be fitted for the job.

Many of our agricultural cooperatives started about 40 to 50 years ago in the days of the "Fordson" tractor. As the demands of agriculture outgrew the capabilities of the "Fordson," the demands farmers made on their cooperatives also brought about change.

Cooperatives, like tractors, had to adjust and grow to remain effective tools for modern agriculture.

The old Fordson of the 1920's and '30's still has some of the basics common with today's modern farm tractor. They each have wheels, an engine, a transmission, a steering wheel, and a seat; but they are quite different in their appearance, size, power, adaptability and use as the engineers have designed the 1975 tractors to serve the needs of the farmers of 1975. The same is true for agricultural cooperatives. We still have the same basics in our 1975 agricultural cooperatives that we had 40 years ago, but like the tractor it has been necessary for agricultural cooperatives to adjust, change, develop more market power and grow in size and scope in order to be an effective tool for modern farmers. Agricultural cooperatives still maintain the basic principles of: democratic control, so that people rather than dollars control; limited interest on equity capital, so the savings of the cooperative will be returned to the user rather than the investor; and operation at cost, which means that they price their services and/or products competitively and at the end of the business year if the cooperative has savings, they will be refunded savings to those who patronize the cooperative, or if the cooperative has not charged enough margin to cover the costs of operation, the users will be asked to pay their share of the loss so that each year their cooperative breaks even.

Today's agricultural cooperatives like the tractor and other

agricultural tools are larger and so constructed to serve today's needs, not the needs of yesteryear. As tractors took on more of the farmers work, they required more fuel, more skill and more maintenance. As cooperatives take on more of the farmers work and services, they, too require more capital, more operating skill and yes, more maintenance.

Today's cooperatives and today's tractors require skilled operators. Each of these tools of modern agriculture are more effective and sophisticated than they were last year. The operators of each tool must know its capabilities and how best to employ it. The farmer must keep his tractor and cooperative both in top performance condition if it is to serve him when he needs it.

The operators of the cooperative--the Board of Directors, the manager, and the employees--must know the capabilities and limitations of the cooperative if it is to effectively serve today's farmer. Like the tractor operator, they must be trained to perform their tasks in a responsible manner.

Some farmers may prefer to farm without their cooperative. This may be because they have never been taught how they can use their cooperative to improve their net income. Often some farmers fail to realize that those who own the cooperative do not buy from or sell to THE cooperative but use it as a tool and sell their farm production through or purchase supplies through THEIR cooperative. Farmers cannot afford to own a tractor and let it sit in the shed while they hire

their neighbor to plow for them-- neither can they treat their co-op as a spare and use it only 75% of the time. Oh yes, the farmer has some new regulations about tractors-- they are: child labor laws, roll bars, etc., and not to be left out OSHA, EPA, IRS, SEC, etc. have been applied to the cooperative.

With this brief overview of farmer cooperative as I see them, I hope I have given you some indication of my views of cooperatives. I see cooperatives as a part of the farmer's total production and marketing activities. Cooperatives have come of age. They are big business but still they are only the launching pad for "blasting off" to greater service for farmers and consumers.

For too many years the teaching of cooperative members, cooperative employees, and the public about cooperatives, what they are, how they can operate, and what they can and cannot do has been neglected. Too often, new employees of cooperatives have been given little or no instruction about cooperatives as a unique way of doing business in our competitive economy and often these employees because of their academic training based on investor-oriented business do not know the unique characteristics of cooperatives and have attempted to direct and operate a cooperative the same as an investor-oriented business. Many of these well-meaning but misdirected efforts have resulted in disaster to the individual and the cooperative and thus the unfavorable press and unfavorable attitude toward cooperatives by employees of IRS, SCS, Justice, etc.

Yes, cooperatives must be operated with many of the same management and business principles as other types of businesses but within the unique characteristics of cooperatives. Cooperatives are people, and people differ one from another. There are some similarities between cooperative organizational structure and practices of like cooperatives in such broad classifications as bargaining, farm supply, credit, Rural Electric, savings and loan, marketing, etc., but there are greater differences as to how each classification of cooperatives meets the three basic principles of cooperation: (1) Operations at cost, (2) Democratic control, and (3) Limited return on equity capital. ^{1/}

Some of you have had extensive academic training in cooperatives. Others of you may not have any academic exposure and little formal education about cooperatives. Some of you may have had considerable experience in working for a cooperative. If I were to ask each of you to write how your cooperative meets the three basic principles of cooperatives, what would you write? I'm certain that if we were to compile your reports, we would have a wide range of methods all of which would come under the three basic principles of cooperation. For example, just exactly how does your cooperative operate at cost? Does it pay or allocate a cash patronage refund? If your co-op pays a patronage refund, does it pay it to members only or does it also pay it to non-members? Or does it just reduce the cost of

the products it sells so it will break even at the end of the year? Does your co-op give its profit or savings to the University for research, scholarships, use it to finance social reform, to finance urban cooperatives, or use it to cure the popular disease called "social responsibility." Or does your co-op pay taxes on its profits and keep what's left? What is a capital credit, a letter of advice, a certificate of indebtedness, etc? How do you answer your owners who say why do you make us pay income taxes on your earnings when the PCA and REC don't?

I have always been impressed with how cooperative leaders differ in their philosophy and viewpoints about cooperatives from one geographical area to another across our United States. In Indiana and Ohio, federated cooperatives are most popular. Also of interest to me are some of the basic philosophies of national cooperative educational organizations. For example, two years ago we prepared a set of teaching materials on cooperatives for use in secondary schools.^{2/} One national cooperative educational organization's representative was disturbed that we presented agricultural cooperatives as a part of our competitive capitalistic free enterprise system. This cooperative educational organization that receives about half its financial support from Ohio-based firms, wrote that

^{2/} Cooperation in a Free Enterprise Society With Emphasis on the Cooperative Way of Doing Business, AGDEX 836, Units I through X, the Ohio Agricultural Education Curriculum Materials Service, The Ohio State University.

they felt very strongly that cooperatives in the United States are a separate economic system and not part of our competitive capitalistic system as we had presented them. Which is it? Which is it to you? Do you or don't you compete with non-cooperatives in your county?

Some anti-cooperative individuals in Justice, ICC, SEC, etc. see the tremendous power farmers could have if they were to put all their business through their cooperatives. The questions raised and remedies leaked by these agencies and departments are often so unreal to many of us that we assume they will go away. But threats such as limits on the size of cooperatives, no marketing agencies in common, a narrow definition of marketing, and all co-op paper including patronage dividends having to be registered with SEC appear to be real. The issue appears to me to be are farmers going to continue to be intimidated or can they prevent the further eroding of their rights as established by the legislative process to have a hand in the inputs and outputs of their farm. Are you prepared to lead your co-op board and members.

When we say that a cooperative is an extension of the farm we are simply saying that the cooperative is a form of vertical integration. Farmers join together in associations to permit them to extend their operation beyond their farm fences into marketing their own products, or manufacturing or securing inputs and services for their farming operation.

Do your employees understand cooperatives? How do they answer the question what is a cooperative? Some of you may have had an IRS classification called "Exempt." I hope your employees know what this means and are not saying we are no longer tax exempt and are now paying taxes. Cooperative taxation is just an example of how we in cooperatives have not been telling our owners, employees and the public what a co-op is.

I encourage you to arrange for each of your employees and your board to see the two new AIC films -- "How People Do Business in Our Democracy" and "Capper-Volstead--A Legislative Foundation for Agricultural Cooperation."

Once we understand what it is we are managing we are ready to move to my second point, 'the principles and techniques of management.'

There are many definitions of management. A few are:

- The attempt to achieve a goal through the guided efforts of others.
- The establishment and the achievement of objectives.
- Management is the work of executive leadership.
- Management is the determining of objectives and achieving these objectives with a group of people.

The one that I like is, getting things done through the effort of people.

What is it you want to get down or accomplish? In other words, what is the objective of your cooperative?

If I were to ask the members of your board what is the objective of the cooperative, would the answer be the same as yours? How about that new truck driver or the good-looking bookkeeper that everyone wants to talk with? I hope your answer is yes.

Too often when new members are elected to the board or new employees are added, cooperative managers don't take time to prepare them to do the job we expect of them.

I see a cooperative manager as a problem preventer rather than a problem solver. To be a problem preventer, one must in addition to understanding the limits and opportunities of his co-op know what is supposed to be happening.

The competitiveness of today's economy, the high cost of money and labor, and new regulations of EPA and OSHA does not allow sufficient time and latitude for acquiring management knowledge and skills on the job by trial and error.

The magnitude of the risks that can result from mismanagement is so great that management by intuition and magic machine is not a reality. Electronic data processing can be a valuable tool for managers to use to discharge their responsibilities but computers cannot manage a co-op.

Management of agribusiness firms is continually becoming more complex. Economic integration, the combining of economic functions, shortages, allocations, the cost of money, environmental controls and employment regulations have suddenly become common

place in our competitive economy. The necessary increased size and complexity of the firm that is required for it to compete or exist in today's climate creates new problems for which we have no previous data or experience in such matters as: financing, production, staffing, reporting, controlling and public relations.

The role of the cooperative manager differs from that of the manager of an investor-oriented firm. You have as your board full-time farmers whose primary objective is to make a living farming. Unlike professional directors these farmers do not have the time or people available to perform all the research or homework required of professional directors. Yet they are competing with professional directors. Co-op managers must assist their farmer board members to prepare themselves to discharge their responsibilities as co-op directors effectively.

A Board of Directors is a governing body legally created by the laws of the state and the corporate papers of the organization and by these legal documents it is given the authority to exercise the power of the corporation, limited only by an conditions set forth in the corporation's Bylaws.

The Board of Directors is not only charged with the responsibility for exercising all the authority of the corporation, its management, the safeguarding of its assets and the conduct of its business--the Board of Directors is in fact, the only group of

persons in whom this authority is vested.

It is the abilities of the men who make up the Board of Directors that is the real decisive factor in the growth and accomplishments of any organization.

It must always be remembered that the Board of Directors decisions are group decisions. It is necessary that each director have knowledge of the corporations business, its opportunities and limitations and of conditions affecting its operation.

The minutes of the association are the official records of that association and are so recognized by courts.

In general, it can be said that members of the Board of Directors are individually and collectively under a continuing obligation to exercise their best judgment and apply such knowledge and experience as they have in the conduct and management of the cooperative's business.

If directors exceed their authority, neglect their responsibilities or act in violation to the provisions of the statute, their charter, Bylaws or marketing contracts of their association, legal liability can result.

The actions of the cooperative board of directors is conditioned by the background, experience, knowledge, and attitudes of the individual board members. As membership on the board changes, the efficient efforts of the group are challenged. As the manager, you may need to provide the leadership necessary to get unity in their

understanding of what a co-op is, what the objective of the co-op is and then assist in establishing goals and plans to move toward this objective.

Confusion sometimes arises as to who has the responsibility for what. In recent months, I think I have observed some increased conflicts about who is responsible for what. To attempt to get uniform agreement on this question, a checklist has been prepared to let the board establish for themselves who has the responsibility for what.

When a member of a cooperative is elected by his fellow members to a position on the board of directors, he faces a two-fold challenge: (1) to represent all stockholders or members of the business, and (2) he is vested by law with the responsibility to reasonably conduct the affairs of the business for the welfare of the cooperative. As a board member, he has legal, general and moral responsibilities in representing stockholders or members of the cooperative.

It is important that cooperative directors understand that their position as a director of their cooperative differs from that of a director for other types of business. Directors of non-cooperatives are usually the principle owners of the firm, and they may serve not only as a director of their firm, but also as an executive or manager. The director of a cooperative is elected democratically without regard to his investment in the cooperative. In fact, the total investment

of the president of a cooperative usually needs to be only one membership fee or one share of stock. The cooperatives ownership is not controlled by the board of directors as in the general corporation.

People, not dollars, elect cooperative directors.

Members of the cooperative elect a director to a position of trusteeship. In effect, they legally place their financial interests in the cooperative in the hands of the director they elect.

Cooperative directors do not make decisions for themselves alone but for the total membership of the cooperative. As a director of a cooperative it is his duty to vote for the best interest of the total membership, not for his own interest. In this respect his power to vote as a director is entirely different from that of a general corporation board member who may quite properly vote to serve his own interest as a major investor or an agent for a few major investors.

The director of a cooperative has the responsibility of keeping the co-op membership informed as to the activities of the cooperative. This responsibility is shared, however, with members who have the responsibility of seeking out this information by reading reports and participating in meetings. The cooperative membership are also responsible for the prudent use of information they receive about their cooperative. A cooperative should give

periodic reports of its affairs, activities and future plans to all members.

To summarize, I said in the beginning that we were living in a time of changing facts. For example, in the past we in co-ops said to be big was bad. Now, we find ourselves in an economy where co-ops must be big to compete. We discover our customers are young farmers who have never farmed without a co-op. We have new employees who must be trained to operate the co-op and answer the questions of the co-ops owners. As new members join the board they must be prepared to operate the cooperative in a legal, effective and efficient manner. The efforts of the owners, board, manager and employees must all be directed toward a common objective with board, manager and employees not only knowing where they are going, but also knowing who has responsibility for what. Once this has been accomplished the board and manager can turn their efforts to being problem preventers and prepare policies that can direct the efforts of all toward the objective of the co-op.